



Seattle City Light Strategic Plan Interim Outreach Meeting Summary

Meeting Date: June 8, 2011

Location: McKinstry Innovations Center

Session Co-sponsored by McKinstry and Greater Seattle Chamber of Commerce

Audience: Business community

Number of Attendees (excluding City Light staff, City staff, and Review Panel members): 88

Summary of Question & Answer Session:

Q: Why is there a City tax on our City Light Bills? If that tax was eliminated would the revenue requirement for City Light be reduced?

A: There are two utility taxes included in City Light bills. A utility tax imposed by the City and a similar tax imposed by the state. 6% goes to the City to support general fund operations; 3.875% goes to the state. Fund transfers of this nature are typical for municipally owned utilities.

Q: Is the rate increase shown in the baseline of 4% a monthly amount that adds up to 24% increase a year?

A: No, it's a 4% annual increase that is reflected. The financial baseline projects the need for a 4% increase in each successive year during the 6 year period. So, if the monthly bill was \$50 in the first year, it would be \$52 in the following year.

Q: How does City Light pay for catastrophic events and protect itself against such events?

A: Catastrophic losses are paid for in a variety of ways, depending on the type of loss. For example, costs to recover from the 2006 windstorm came out of O&M; however, about 2/3's of the cost was reimbursed to the City by FEMA funds. Another example is the rock slide up near Ross Dam last year: the repairs to two docks came out of our capital budget. We also are self-insured against most types of major disasters but have been looking into the feasibility of purchasing insurance for certain types of events.

Q: How much could City Light save if it didn't have to deal with I-937 requiring the purchase of renewable resources other than hydropower?

A: The cost of complying with I-937 affects City Light through the purchased power budget. Purchased power costs drive about 40% of the rate pressure in the coming years, and the costs of renewable power drive about 2/3 of that increase. Initiative I-937 contains a provision to mitigate the impact if rates would increase by more than 4% annually as a result of I-937. The impact of this initiative on Seattle City Light is below that rate cap.

Q: Can we change the language of I-937 to include hydropower as a renewable?

A: This has been discussed since the passage of this measure. The Legislature could institute such a change.

Q: Does the baseline showing additive 4% rate increases in each of the next six years reflect "business as usual?"

A: Generally yes. This is a starting point for our discussion, not a recommendation. It has not been approved by the City Council. It does not reflect actions the utility may take to reduce costs or add new investments.

Q: Why is debt service increasing so much?

A: City Light's adopted Capital Improvement Projects (CIP) plan includes about \$1.6 billion in capital expenditures over the next six years. Capital projects are financed 60% by bonds, 40% by cash. The City Light management team has identified about \$165 million in investments that could be deferred, but we are still looking at an estimated \$1.4 billion in capital improvements necessary to replace and maintain our infrastructure – the dams, transmission system and distribution system. The utility is a very capital intensive operation compared to a lot of general government functions. Debt will continue to be incurred as we make the necessary infrastructure improvements. City Light spends \$230 - 250 million per year on capital improvements.

Q: How long do the existing rates stay in place?

A: The Council adopted a two-year rate plan last year, for years 2011 and 2012. As part of that two year plan, there will be a 3.8% rate increase in 2012. In 2012, the Council will adopt rates for 2013-2014. We are hoping that the six year strategic plan will help provide greater rate predictability over a longer time horizon. (Note: Councilmember Harrell added that the 4% rate increases shown in the baseline has not been approved by Council and that the Council will take a hard look at the recommendations that come out of the Strategic Plan and from the Review Panel to ensure there is validation/justification for what is being considered.)

Q: What is the trade-off if investments aren't made? These trade-offs should identified in the strategic plan.

A: We agree. It will be important to identify the trade-offs of not making proposed investments. We will incorporate the comments we receive during phase one of the plan process and begin to define the initiatives and potential costs during the next several months. In the fall, during phase two, we will be asking customers and stakeholders for their views on these trade-offs.

Q: How much does debt service represent of the proposed 4% rate increase?

A: Debt service is about 40% of the estimated increase in the revenue requirement that is driving the forecast rates: debt service is the cost of repaying debt we issue to pay for major infrastructure maintenance and upgrades. Both debt service, and the power contract costs, which are mostly long-term agreements (and those cost increases are essentially locked in) are the relatively less controllable aspects of the Utility's revenue requirement.

Q: How are rates set?

A: Currently City Light makes a recommendation to the Mayor about what the rates should be during the budget process. This could be for one or more years. The Mayor then makes a recommendation to the City Council. The City Council is the rate-making authority. It reviews proposed rate increase and holds public hearings on the rates before finally adopting them. It may and often does make changes to the proposed rates forwarded by the Utility and Mayor. The strategic plan is an effort to look at a more long-range view of setting rates and not including rate-making during the budget cycle.

Q: I am a resident of Burien. Why do I get surcharges on my bill? I can understand the SPU 14% charge for being a non-resident and receiving services, but I don't understand City Light's charge.

A: If you live in a suburban city that we serve, the franchise agreement we have with that city authorizing us to be your electricity provider may include a separate charge agreed to by that entity that provides for us to collect and to pay a utility tax to that city. The revenue collected goes straight to the suburban city and not to City Light. If you live in unincorporated King County (outside city limits), you pay the same rates as City of Seattle residents, since King County does not have legal authority to impose a utility tax.

Reporting Out from Tables (listed by Table number, not the order of the presentations)

Table #1

- Rate predictability and stability is a top priority.
- The utility should adopt a long-term planning horizon for how it considers investments in renewable energy and be transparent about this so that businesses can plan accordingly.

Table #2

- Focus on the end **bill** rather than the rate.
- Energy efficiency efforts should not be prescriptive—they should allow for greater innovation, ways to affect what's happening at the meter.
- Look at the issue of an aging workforce and the next wave of knowledge workers - provide incentives and motivation for the utility's workforce to be innovative in finding energy efficiency.

Table #3

- The Strategic Plan should include a stronger focus on conservation and energy efficiency.
- Reliability of the system is also very important.

- The utility should focus on the workforce challenges and take steps to ensure we are prepared to bring in the next generation of skilled workers.

Table #4

- Rate predictability is a top priority.
- The utility should look at the long-term costs of decisions and the long-term cost picture generally. What will be the rate impact after 6 years? What is the long-term impact on rates of deferring investments now? Develop scenarios around these issues and explain how different scenarios impact rate predictability.

Table #5

- We agree with Table 3: there should be greater focus on energy efficiency, reliability and workforce challenges.
- The Utility needs to focus on system reliability.
- Rate predictability is a significant concern.
- The Aging workforce is also a significant concern—but it's both a problem and an opportunity to improve efficiency, creativity and our use of technology.
- All businesses are taking ten percent cost reductions, looking at all line items: City Light should do the same.
- The utility should sell or lease properties to save money or generate income.

Table #6

- Conservation, conservation, conservation.
- Incentives for conservation should be deployed more creatively, in new ways to allow more people to take advantage of them. Power purchase options available to customers should be expanded.
- Rates are too low for proper incentives to conserve.
- Concentrate on workforce issues.

Table #7

- Conservation should be promoted through more innovative incentive programs.
- The utility should take steps to promote its independence from outside cost pressures such as BPA. Conservation can help here—reduce reliance on outside power purchases.
- Clarify how investment decisions are made and what is the expected return on investment.

Table #8

- We echo table 6: conservation is very important.
- The utility should invest in its workforce and succession planning. Look at partnerships with local schools in order to develop a skilled workforce.

Table #9

- Objectives should be more specific and measurable.
- The Utility should lead on innovative conservation and reduce its purchased power needs.
- Utilize better technology to become more efficient.
- Eliminate waste in energy transmission.
- Increase conservation in all aspects of operations and customer opportunities.

Table #10

- We focused on rates. Are rates so low as to deprive us of the ability to better control future rate increases? If we underinvest in infrastructure, reliability and conservation now, sustainability is hampered over the long-term. City Light should increase investment now for better sustainability of the utility over time. If rates go up, it reduced the payback period on conservation investments.
- Compare costs for other utilities for power purchases and other costs.

Table #12 (Table 11 did not convene)

- I-937 should be amended to reduce the cost impact on electric utilities.
- Take a hard look at City Light governance. We need more than the Review Panel. Perhaps identify an independent body that oversees utility operations and rates, and make sure they get the resources needed to do a thorough job.
- It is critical that City Light manage its costs. In particular, strategies to address labor costs and labor work rules are important.